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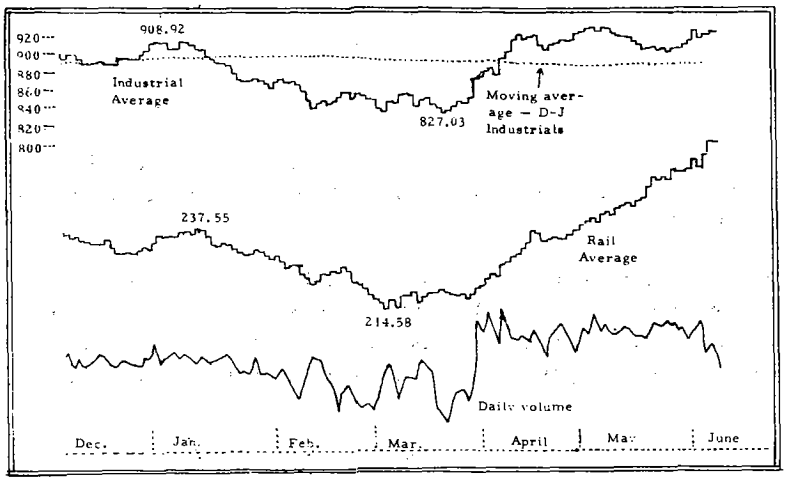
SHOCK WAVES: Is America suffering a sort of mass nervous breakdown? Is the collective psyche of the country about to crack up? Is violence and politics by assassination becoming part of the new American way of life? It would seem so. The firing of a bullet into the brain of Robert Kennedy no longer seems an isolated, insane incident. Coming so soon after the murder of Martin Luther King, the Kennedy murder appears to be part of a growing pattern of psychosis (I avoid the more common word "lawlessness") which is infecting the atmosphere of this nation.

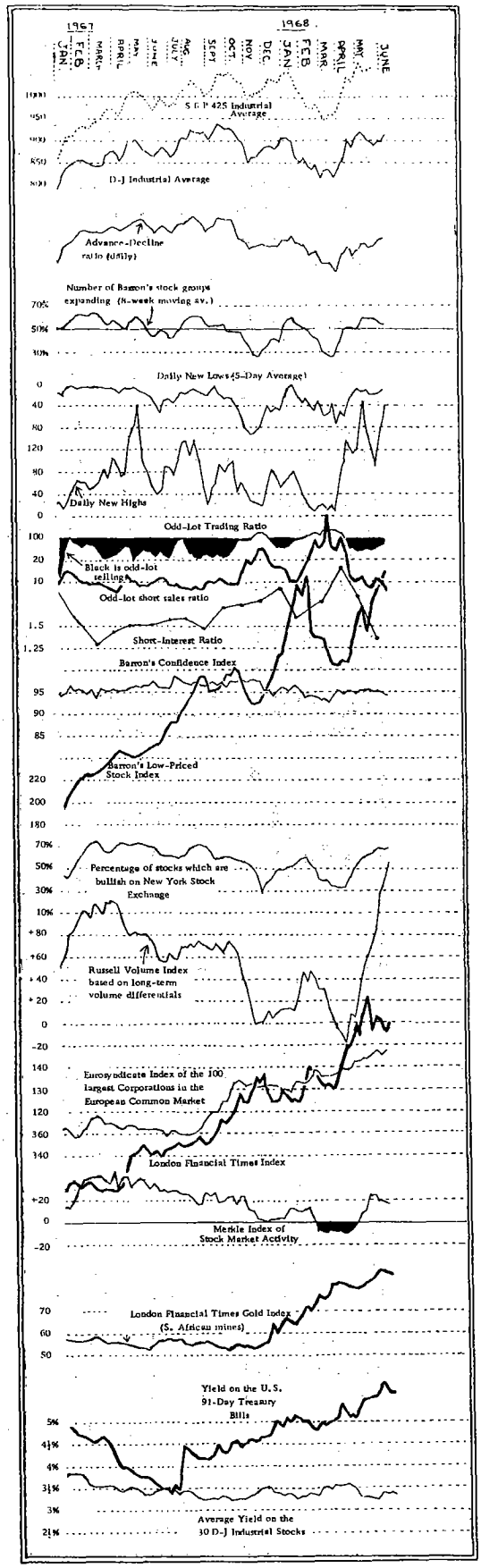
Robert Kennedy, after lingering precariously for 25 hours, died in the early morning of June 6. What are the implications, politically and economically, of the Kennedy disaster? No one can be sure at this writing. Before he died Kennedy stated that his philosophy was nearer to that of McCarthy than Humphrey. This would suggest that the mass of Kennedy's potential votes would swing behind McCarthy. But American politics does not work exactly that way. Politics in this country is a professional game; it is a tough, cynical, continuing power struggle. The politicians go where the power is and where their bread is buttered. And so far, as far as the mass of Democratic politicians are concerned, the "butter" is in the Humphrey camp.

The pros are afraid of McCarthy (although the people are not). McCarthy, they claim, is an unpredictable amateur. He is an unknown quantity without the money or power backing to swing an election. Because of this, I feel that we are about to see one of the most cynical conclusions to a Democratic nomination in recent history. We are going to see how the professional politicians really think, act and operate. Public appeal and popularity are going to mean little. It's going to be a case of getting behind the money and power, and in the Democratic party as it stands now, the money and power is represented by Humphrey.

* * * *

Meanwhile, the Paris "peace talks" are going badly, and at the same time the war in Saigon is heating up. The war is going so poorly, in fact, that there is a question of whether bombing in the North will not be increased again as a warning to Hanoi, even while the negotiations are going on.




1967
1968
S & P 425 Industrial Average
D-J Industrial Average
Advance-Decline ratio (daily)
Number of Barron's stock groups expanding (8-week moving av.)
Daily New Lows (5-Day Average)
Daily New Highs
Odd-Lot Trading Ratio
Black is odd-lot selling
Odd-lot short sales ratio
Short-Interest Ratio
Barron's Confidence Index
Barron's Low-Priced Stock Index
Percentage of stocks which are bullish on New York Stock Exchange
Russell Volume Index based on long-term volume differentials
Eurosyndicate Index of the 100 largest Corporations in the European Common Market
London Financial Times Index
Merkle Index of Stock Market Activity
London Financial Times Gold Index (S. African mines)
Yield on the U.S. 91-Day Treasury Bills
Average Yield on the 30 D-J Industrial Stocks

How would Hanoi react to the prospects of a Humphrey-Nixon election campaign? Would Hanoi feel that it was going to face two "Hawk" camps and wish to settle before the election? I simply do not know. But I would still guess that Hanoi will want to take its chances negotiating afresh with a new Administration which was at least to some extent uncommitted.

If I can be allowed a political-financial comment, I think it is significant, in view of the state of the dollar and the international monetary system, that none of the presidential candidates have said much (if anything) about the fiscal situation. Spending plans (particularly on the part of the Democrats) are as grandiose or more so than ever before. The only catch is that none of the candidates mention how they are going to pay for all the goodies. Perhaps the American people are as dreamy regarding finance as they are violent regarding human relationships. It all amounts to unreality, and in the May 29 New York Times, writer Albert Kraus discusses this new form of monetary daydreaming in an article entitled "In a Beautiful Balloon," a few paragraphs of which are reproduced here.

THE MARKETS: The flight from paper money into "things" continues, with the price of almost all tangible objects moving higher. Getting rid of cash is the order of the day, and as seen on the series of yearly price-range charts (below, courtesy of the London Economist) this is not a phenomenon confined to American shores. All over the world speculators, traders, the public in general, is shoveling paper currency across the counter in exchange for "something of value."

Yet, as economist Elliot Janeway (and I have agreed with him) has pointed out, there is a value deflating for every cost that is inflating. I expect these conditions to get much more acute — probably before the autumn — and the day of ultimate reckoning is drawing ever closer.

If the tax bill is passed, it will be very difficult for LBJ to come up with $6 billion in budget cuts, and for political reasons these cuts will be submitted to Congress,

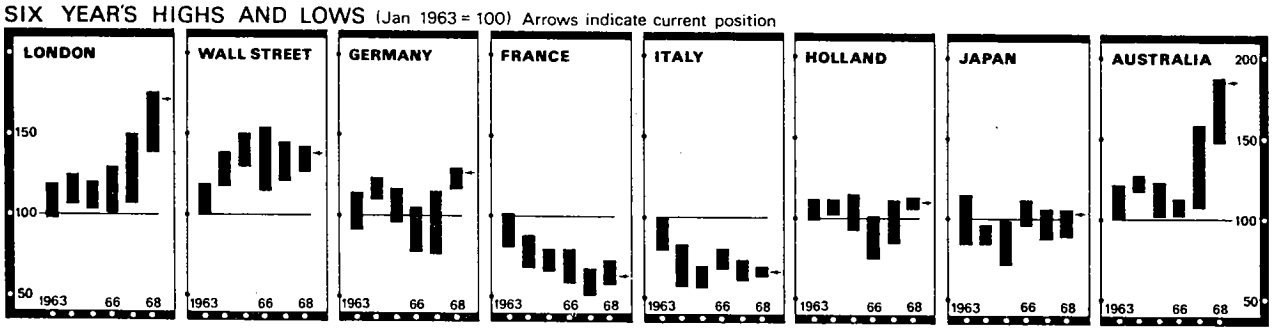
Movie makers—Antonioni, Bergman and Resnais, among others—have learned to wander easily between the world of reality and the world of dreams. When reality becomes oppressive, the subconscious may offer escape.

In the Albert Finney film, "Charlie Bubbles," for instance, the hero is lifted literally up, up and away from his troubles in a beautiful balloon.

Something of the same euphoric separation from reality seems to pervade the discussion of international monetary problems in the current election campaign. By and large, the issue is simply ignored. When it is acknowledged, it is discussed before audiences of bankers, economists and businessmen.

The possible, or even likely, collapse of the international monetary structure is not seen as something affecting the jobs, the pocketbooks—indeed, quite possibly, the lives—of everyone.

SIX YEAR'S HIGHS AND LOWS (Jan 1963 = 100) Arrows indicate current position



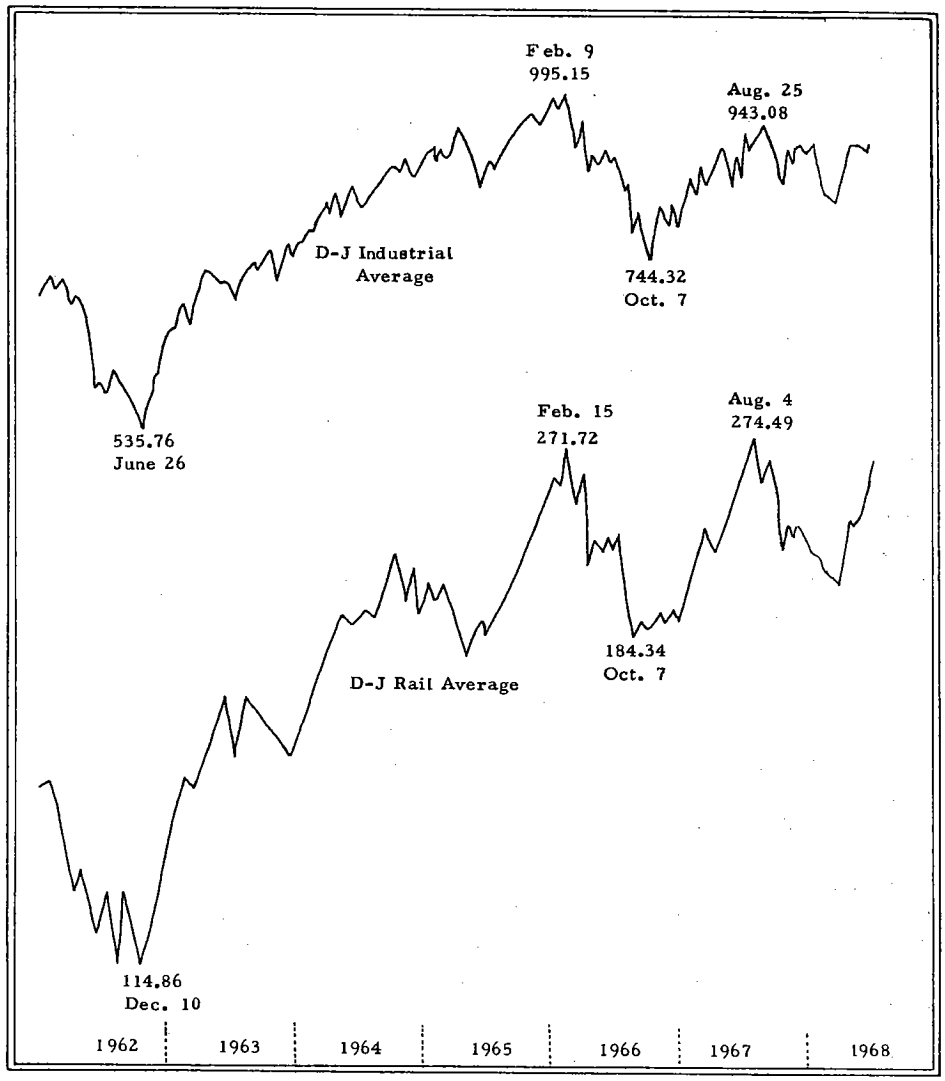
which will then have to haggle about what gets cut and where. Since corporations will want to make up for lost profits (particularly in the face of higher taxes) they will attempt to pass the difference on in the way of higher selling prices. This will adversely affect out balance-of-payments, since it will further price American goods out of world markets. Furthermore, with interest rates in the stratosphere and with the national debt creeping further and further into the near-term area (rather than towards long-term bonds), the cost of financing the national debt will continue to climb. In the end, I feel that any tax increase and budget cut will fall far short of the needed mark.

It is significant that since its 33-year low of a week ago, the D-J 40-Bond Average has rallied hardly at all. The reason, I think, is clear. If taxes are raised, corporations are going to run into an increased need to raise money for financing, and the already choked bond markets will have to face an even larger volume of new offerings. This, coupled with the needs of the cities, municipalities, counties, states and the federal government will serve to keep the bond markets on the floor while holding interest rates at or near record highs.

Meanwhile, on the New York Stock Exchange matters continue to hold at white-hot intensity. Margin debt last month rose to an all-time high of $6.4 billion, while in the single month of April 20,000 new margin accounts were opened. In response to this obvious eagerness on the part of stock-buyers, the underwriters have obliged by coming up with $1.5 billion in new offerings over coming months. This is roughly twice the amount which was offered a year ago at this time.

As for the market itself, we have seen again and again since the Industrial peak of February, 1966, how the bear market sucks up new thousands of buyers and more billions of dollars. Hundreds of stocks, which 10 or 15 years ago would

not have found markets at all, are now bid up to astronomical levels. Many new issues, not yet off "the drawing boards," are fetching double their issuing price with such shares as hamburger and fried chicken franchises selling at absurd price-earnings multiples.



As seen on the accompanying long-term chart, the two descending peaks for the Industrial Average (995.15 and 943.08) still stand, but this pattern constitutes a major non-confirmation when viewed against the action of the Rails. Note that the 1967 Rail high was 274.49, roughly 3 points above the 1966 Rail peak. Now as Rails push up with remarkable strength, I wonder if we will not receive a new historic Rail high— again unconfirmed by Industrials.

Buying and speculating in the Rails is being touched off by the "land play," or the fact that so many leading Rail equities hold large amounts of "inflatable land." At any rate, the Rail Average, which was supposed to be a dying relic only a decade ago, has consistently outperformed the Industrials (as this ratio chart shows), and we now see them as leading "inflation hedges" in the eyes of speculators. I well remember that in the late-1950's I spent half my waking moments answering mail from irate subscribers who insisted that the railroads were on their way to oblivion and as such should have no part in stock market analysis. But as seen on the chart, an equal amount of money invested in 1962 in the Industrial and Rail Averages would have yielded far more in Rails than Industrials. Thus these prehistoric monsters have come to life with a vengeance.

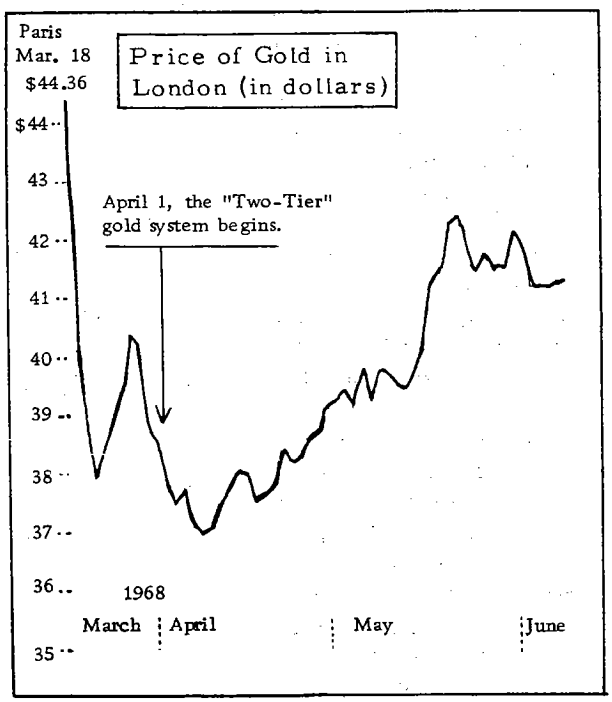
Rather than the action of the Averages, however, I believe that it is the wild, speculative atmosphere of this market which is the mark of greatest distinction. Over the past few weeks, volume on the AMEX has approached 70% of N.Y.S.E. volume, always a signal of dangerous overenthusiasm for "cat-and-dog" stocks. Rumors are that over-the-counter trading will cut to a four day week because of the heavy volume. The action of the Averages can never be accepted alone— without taking into consideration the prevailing psychology. Psychology is now highly emotional and frenzied. If there was ever a period when "the madness of crowds" has taken over, this is it. And that, I believe, is how history will record this era.

THE SCENE: As seen on the "London Price of Gold" chart (page 4), the first stage of the gold rise seems to have drawn to a close. A consolidation is now in order, and any excuse will serve.

The excuse is the 1968 "French Revolution", and the American reaction to DeGaulle's troubles has been obvious glee. "Ah ha," smiles the man on the street, "Now the old devil is going to take some of his own medicine."

But because the French banks and Exchanges were closed for a few days, pressure of French gold buying was taken off the Zurich and London exchanges. But as Green's Commodity Market letter stated, "The newest French experience must have reminded the Frenchmen as well as other Western Europeans that banks can be closed and paper money savings easily endangered and that, therefore, it is safer to keep part of their assets in gold or gold coins."

But readers should remember that the current run from Francs could easily upset the international monetary structure. Notes the Bolton-Tremblay Bank Credit Analyst, "France has perhaps "2 billion of exchange reserves and I.M.F. borrowing privileges. Should these be exhausted, we might well see a gold embargo and a devalued Franc, again an intolerable event in the face of U.S. gold policy. Countries detest the prospect of selling gold, even in crises."



Therefore, the French situation poses as much a monetary dilemma as anything could. A resurrection of DeGaulle's power will mean continuing pressure on gold together with a new round of French inflation. On the other hand, a toppling of DeGaulle will certainly present the possibility of the fall (devaluation) of the Franc and with it multiple devaluations all over Europe.

In sympathy, the British pound has already sunk to new record lows with the spread between the spot pound and the 90-day pound futures already larger than was the case just prior to Britain's recent devaluation from $2.80 to $2.40. It is certain that if Britain is forced to devalue again, few if any (and this includes the dollar) other currencies will be able to withstand devaluation.

The U.S. is placing a large store of its hopes on passage of the 10% surtax bill with the accompanying $6 billion expenditure cut. Last week President Johnson attempted to keep the whole package alive by reluctantly announcing that he would accept the $6 billion expense cut. It is now up to Congress to pass the bill, but it should be stated that there is no certainty that the bill will be passed.

Some observers remain cynical regarding the whole tax bill, with Indicator Digest coming out in an interim bulletin as follows: "Therefore, while Wall Street may feel that this is a bullish development (potential passage of the bill) causing stocks to run up for a while longer, over the longer range it will turn out to be a bearish stock market factor. Bull markets depend on rising earnings; this earnings pattern will be broken if companies have to pay higher taxes. Moreover, to compensate for the lost earnings many corporations may raiseprices of their products, thus defeating the entire purpose (to curb inflation)."

Assuming passage of the tax bill with budget cuts, another factor is worth noting. With the fighting in Vietnam continuing at a stepped-up pace, with violence more prevalent in the U.S. than ever before, with the nation boiling over the crime situation, any cuts in the budget will be more than offset by new expenses which are literally "built in" to the nation's budget.

Economist Elliot Janeway put the matter succinctly in his latest report (June 5): "It has taken no gift for prophecy to see that in another week or two of the TV fare the country is being served up nightly from the rubble-ridden streets of Saigon, the admitted question will become how fast war cost will head up. And on the morning after California voted, no one any longer questioned the premise taken as axiomatic by this Service—namely, that social welfare spending is in for increases sharper than the cuts that have been expected to be packaged into the tax bill."

Meanwhile, foreign Central Bankers continue to cast palsied eyes at the U.S. efforts to stave off inflation and deficits, thereby "saving the dollar." Following the $157 million deficit in foreign trade for March, April showed a surplus of $218 million. The restoration of the surplus, however, was largely due to the catching up of exports due to the ending of the 11-day dock strike which ended March 29. April was also hurt by the surprising bulge in copper and steel imports, a trend which threatens to continue.

In the June issue of Exchange magazine, the case is made for U.S. business becoming "fat and soft." The three reasons for the fat are given as follows; first, the big first quarter earnings of American corporations were established largely from higher prices, not belt tightening or increased volume. Second, the extent to which businessmen are now protesting imports is taken as a sign of weakness. Finally, many U.S. manufacturers are now passing up smaller orders, making it easy for foreigners to move in. This is also a reason for the deterioration in the U.S. trade surplus.

My own final conclusion is that there has as yet been no real improvement in our balance-of-payments, and improvement here is the only factor which will help the dollar. As long as the deficit continues, dollars will be increasingly overvalued and the price of gold will continue to climb.

FROM ALL POINTS: The hottest stock market book around is the one by George Goodman, editor of Institutional Investor, who has been writing sensationally cynical market pieces for New York magazine under the nom de plume, Adam Smith. The book, "It's the Money Game," appeals to Wall Streeters particularly, because as one Streeter says, "We agree with it."

Goodman tells what is really happening on the Street, and it often sounds absurd. But there is so much truth (even in his comedy) that one is kept continually in stitches. The book tells about the new madness, the record volume, the hot issues and the go-go funds. What he has done, says a partner in Goldman-Sachs, is "up-date the tulip craze." It's not often that one can laugh at the madness of his times.

* * * *

According to my friend on the move Harry Schultz, the tax bill now stands only a 50/50 chance of passage, with labor voting heavily against it (because of the budget cuts). Schultz thinks the price of gold could jump $5 over night if the tax bill does not go through.

* * * *

Britain is now actively attempting to figure a way to eliminate the pound sterling as a reserve currency. (Subscribers might remember that when DeGaulle advocated this same thing he was denounced for trying to wreck the world monetary system). Currently, there are $10 billions in foreign deposits as claims against Britain's $2.7 reserves of gold and foreign currencies. Any run on sterling and Britain would be as bankrupt in reality as she now is broke on paper.

Therefore, Britain is entering into informal talks with various nations regarding selling them long-term bonds. Britain could then use the foreign currencies instead of sterling to meet withdrawals in case of a run on the pound.

* * * *

Again, Harry Schultz comes up with a hot scoop. Most remaining U.S. gold is below 880 and well below 950 in fineness. This is below the quality which is acceptable to European Central Bankers (Swiss banks will take only 950 or better). This means that of the $10.7 billion in U.S. gold which remains, subtracting what we owe the I.M.F. and the gold backing for bonds sold to Switzerland and Germany, we are probably about out of acceptable gold. When is our Treasury going to give us the true story of what is happening to its citizens' reserves? We can piece together most of the awful truth, why not give us the whole messy story?

* * * *

I thought this little ad from the May 21 Washington Post provided a significant commentary on the times. Ironically, the ad appeared at the end of an article on the Poor People's March:

Boarding Up of Houses and Businesses
Vandalized or Vacant
WE PROTECT WHAT IS LEFT
Emergency Services Radio Dispatched
737-4477
ANY TIME

Rather than talk about individual stocks in the Market Laboratory, I would rather talk about the reasons why I would avoid stocks at this point. The main reason is the easily documented, wildly speculative character of this market. Frenzied, speculative markets are always exciting and often temporarily profitable. But they are dangerous, and when they come within the framework of a primary bear market, they are doubly dangerous.

I have drawn the accompanying chart (page 6) to show why I label this a fantastically speculative market. What we may now be seeing is a repeat of early 1966. At that time I drew attention to the fact that although the blue-chip Dow stocks had failed to go to new highs, the S & P Low-Priced Index (LPI) was careening to record highs. Thus, I stated that the quality of buying was notably poor— against a background of selling in the investment-grade issues. The end result was the collapse of February-October, 1966.

Now again we see the LPI climbing to new highs while the Dow has failed to better either its 1966 or its 1967 peak. In other words, buying is intense and widespread in the "cats-and-dogs" while the investment grade issues have failed to move "in

 gear." To put it mildly, this is a dangerous situation again.

Confirming the highly speculative nature of this market, the "Speculative Index" or the relationship of volume on the AMEX and the N.Y.S.E. has pushed into outer space. This time, the Speculation Index has moved above its 1966 high, so that we can say that volume on the AMEX has been running even higher in relationship to N.Y.S.E. volume than was the case in the flagrant 1966 affair.

Note that since late-1967, the Speculation Index has pushed up to form three peaks, each one higher than the preceding. My guess would be that the current new high peak in the Speculation Index is going to be the last one — prior to the fall. Market action has a habit of coming in three waves, and the Speculation Index is currently on its third and most hysterical wave.